

The State of North Carolina Banks

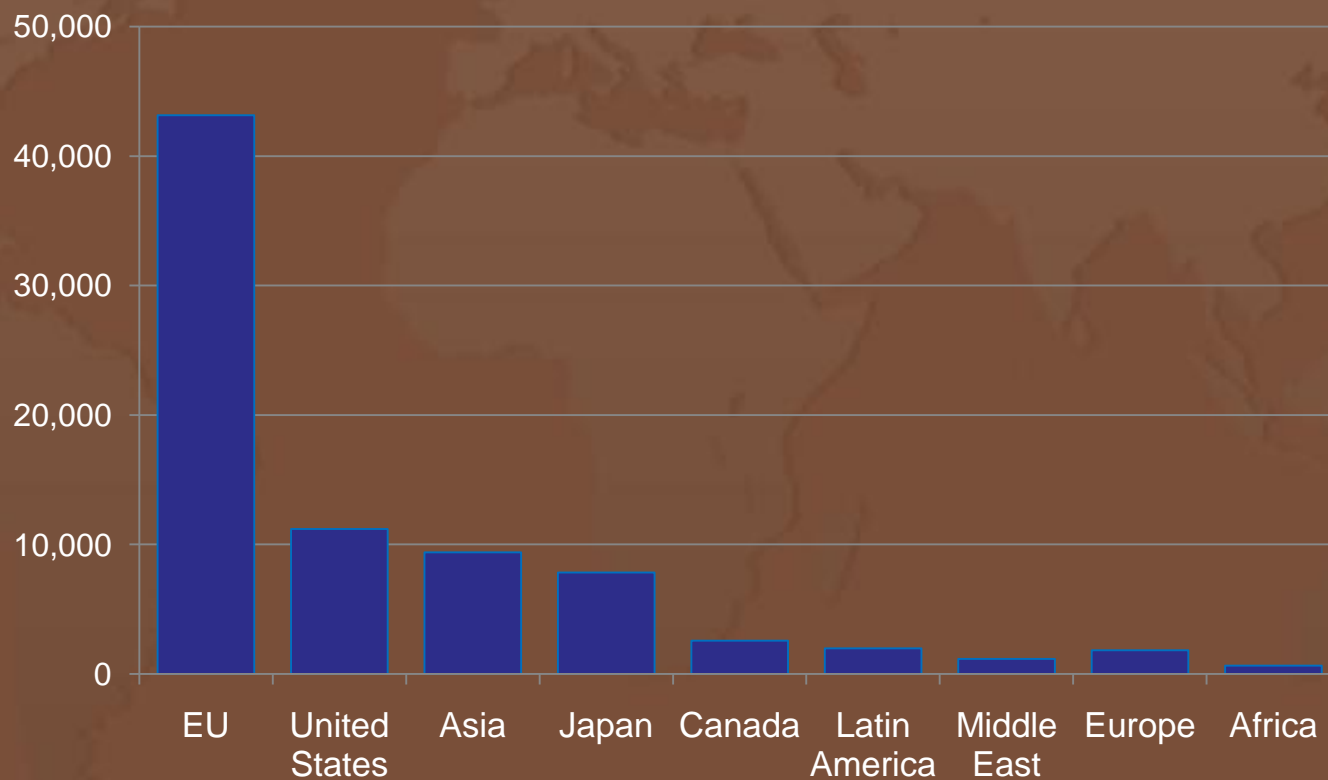
A Review, Analysis, and Proposal



Joseph A. Smith, Jr.
North Carolina Commissioner of Banks
Senate Commerce Committee
March 3rd, 2009

The Crisis we Face is Global...

According to IMF, global banking assets are 84.8 Trillion.

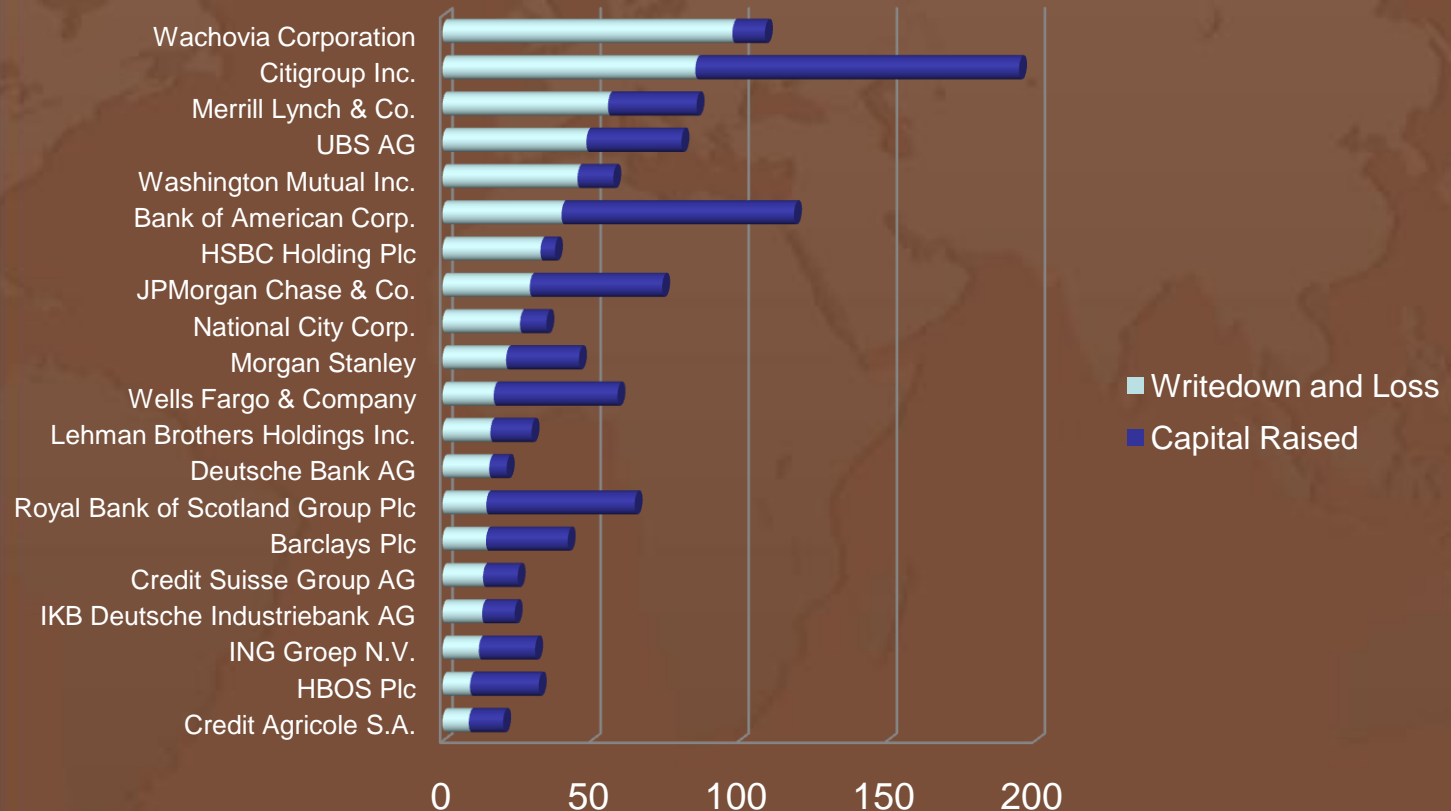


Source: IMF, Global Financial Stability Report, October 2008

Note: EU: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, and United Kingdom

Global “banking” is in crisis because of a capital markets meltdown.

Top 20 Banks' Subprime Market-Related Losses



“Banking” for this purpose includes securities and often financial services.

Source: Bloomberg-Top \$815 B: Table, February 2009



The global crisis has affected NC

- Wachovia
- Bank of America
- Freezing of capital markets
 - Mortgage markets
 - Fannie Mae / Freddie Mac
 - Trust preferred securities
 - Commercial real estate



Banking in North Carolina

The structure of Banking in North Carolina has changed...

In 1999:

- 132 banks did business in NC
- 85% of total North Carolina deposits were held by top 10 institutions
- 99% of total North Carolina deposits were held by banks with headquarters in North Carolina
- 73% of deposits of North Carolina banks were outside of North Carolina

A close-up photograph of a globe on a stand, showing the Americas. The globe is made of a dark material with a lighter, textured surface representing the continents. It is mounted on a gold-colored stand with a circular base. The background is a dark, textured brown.

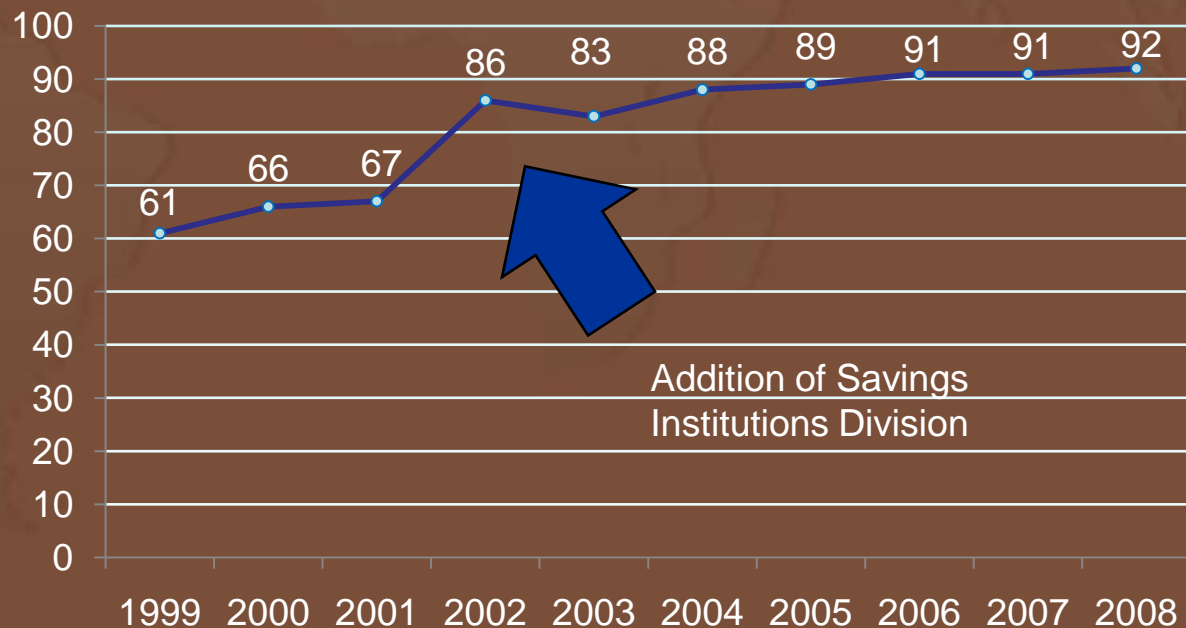
Banking in North Carolina Today

- 138 banks do business in North Carolina
- 84% of total North Carolina deposits were held by top 10 institutions
- 94% of total deposits were held by banks with headquarters in North Carolina (Without Wachovia: 50%)
- 83% of deposits of North Carolina banks were outside of North Carolina

State-chartered Banking in NC

- 99 Institutions in all.
 - 78 Commercial banks
 - 14 Savings banks and savings and loans
 - 7 Trust companies

Number of State-chartered Banks





State-chartered Banking in NC

3 institutions with
over \$10 Billion
in deposits

- 45% of total NC deposits
- 30% of total NC offices
- 2,272 offices operating in 13 states
- 60 % of deposits are outside NC

9 institutions with
deposits from
\$1 to \$10 Billion

- 10% of total NC deposits
- 12% of total NC offices
- 376 offices operating in 3 states
- 14 % of deposits are outside NC



State-chartered Banking in NC

50 institutions with
deposits from
\$100M to \$1B

- 19% of total NC deposits
- 16% of total NC offices
- 439 offices operating in 3 states

30 institutions with
deposits under
\$100 Million

- 1% of total NC deposits
- 2% of total NC offices
- 46 offices operating in 1 state



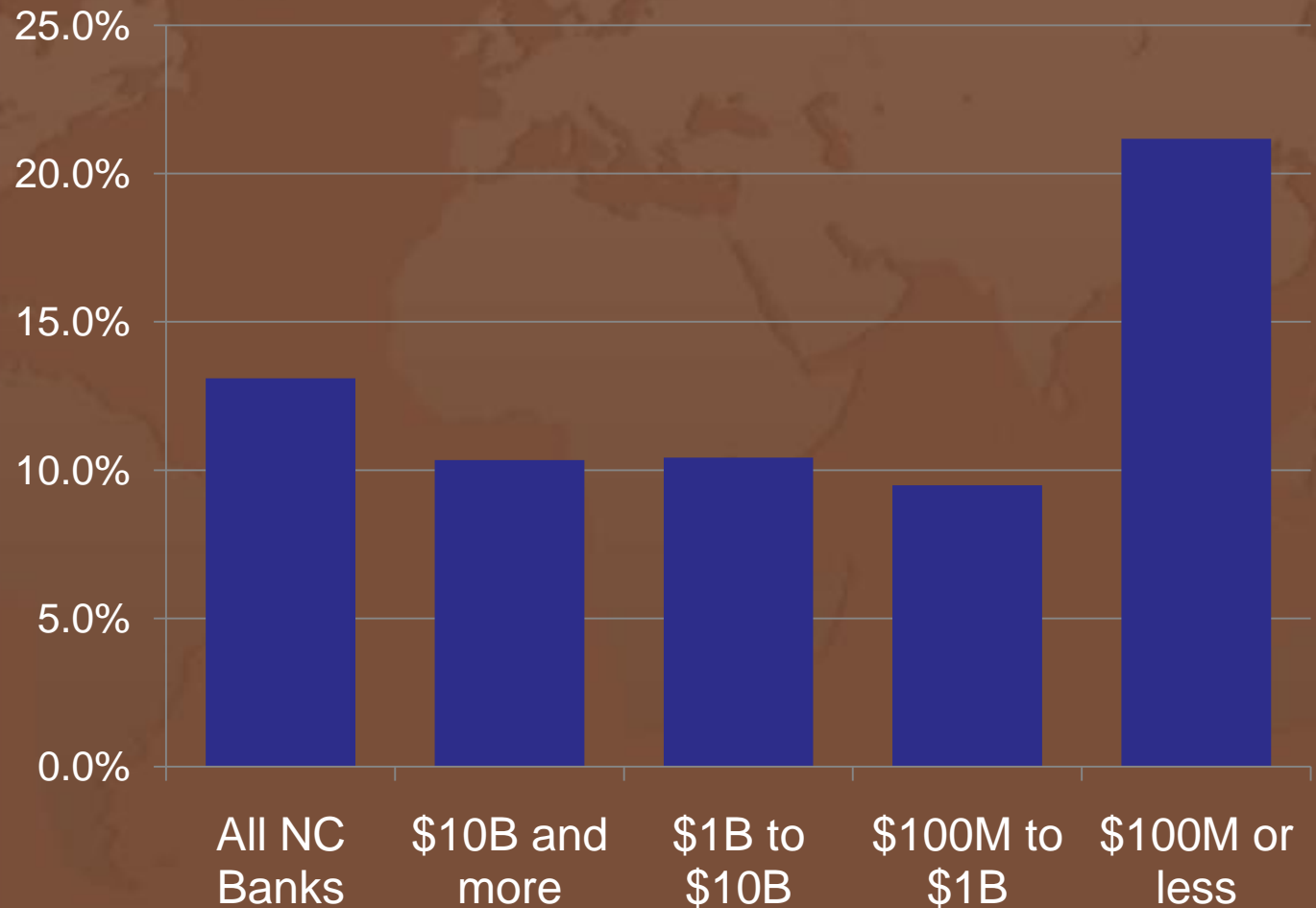
Health of State-chartered Banks

Capital:

- More than adequate capital at present
- Capital markets unavailable or extremely expensive
- Capital Purchase Program under Federal Emergency legislation
 - \$4 Billion requested by 59 banks
 - \$3.56 Billion obtained to date by 22 banks

Health of State-chartered Banks

Equity Capital to Total Assets



Source: SNL Financial



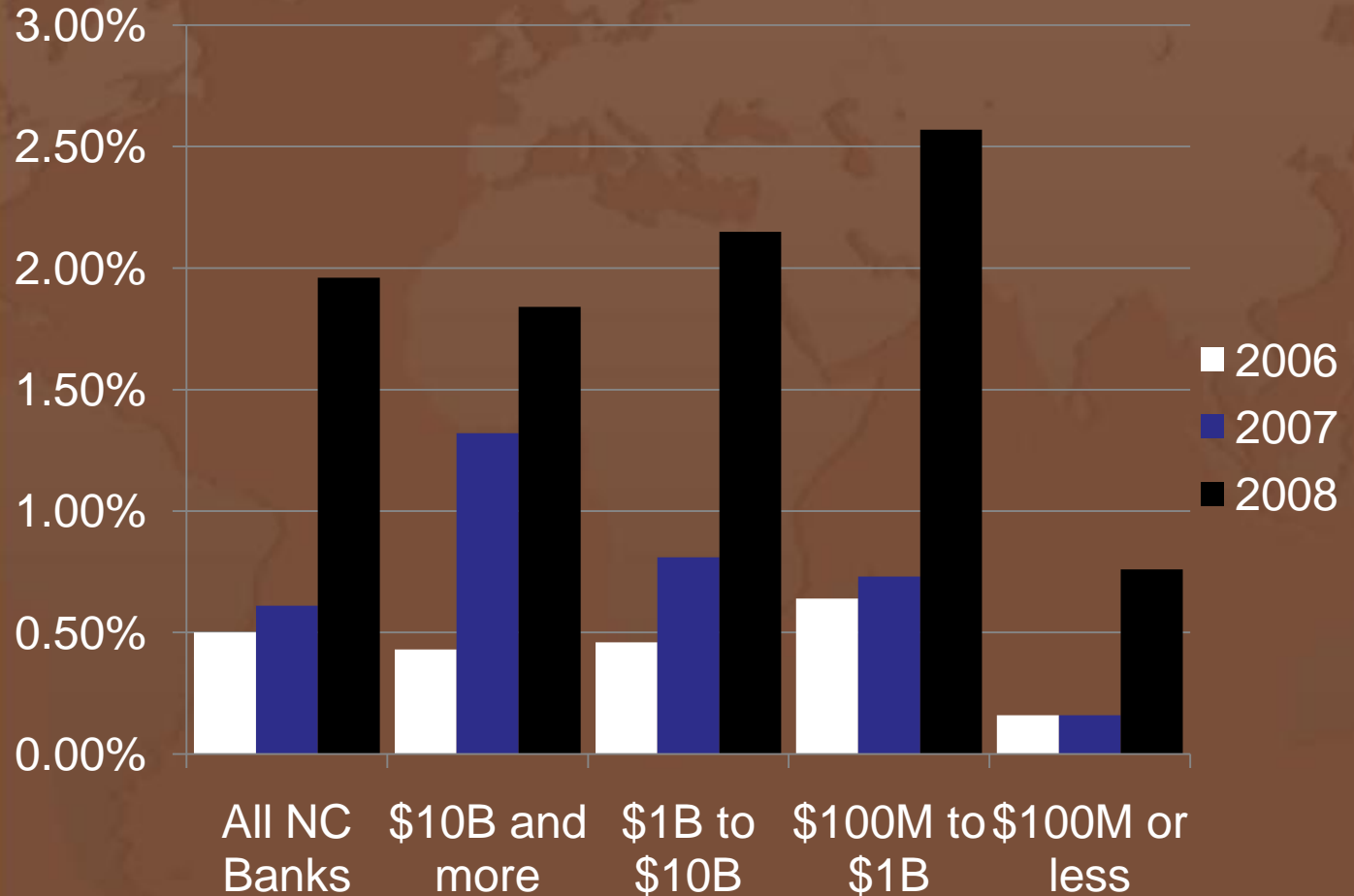
Health of State-chartered Banks

Asset Quality:

- Increase in non-performing assets, Allowance for Loan and Lease Losses (ALLL) and Other Real Estate Owned (OREO)
- Concentration in real estate related loans

Health of State-chartered Banks

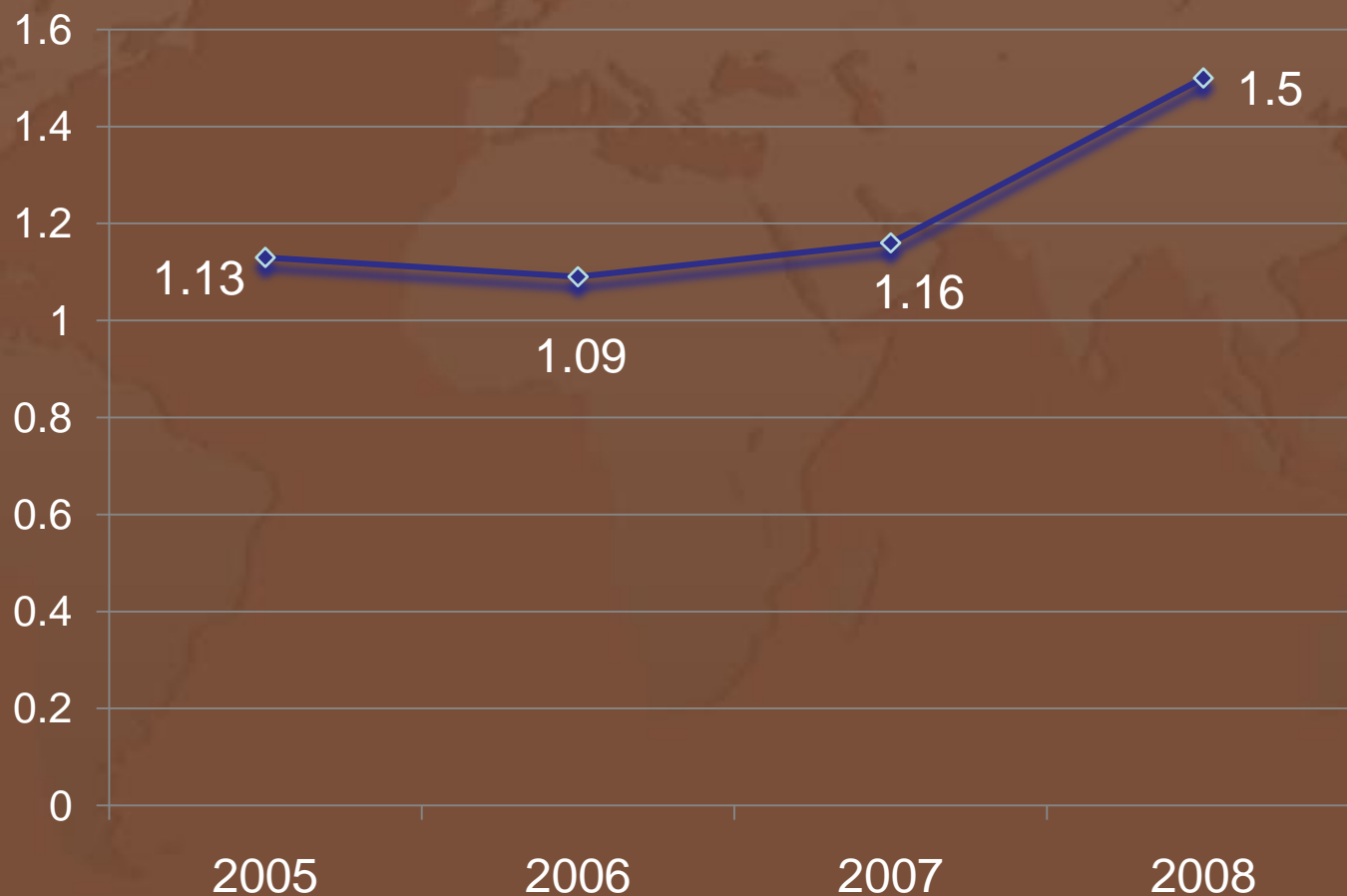
Nonperforming Assets to Total Loans



Source: SNL Financial

Health of State-chartered Banks

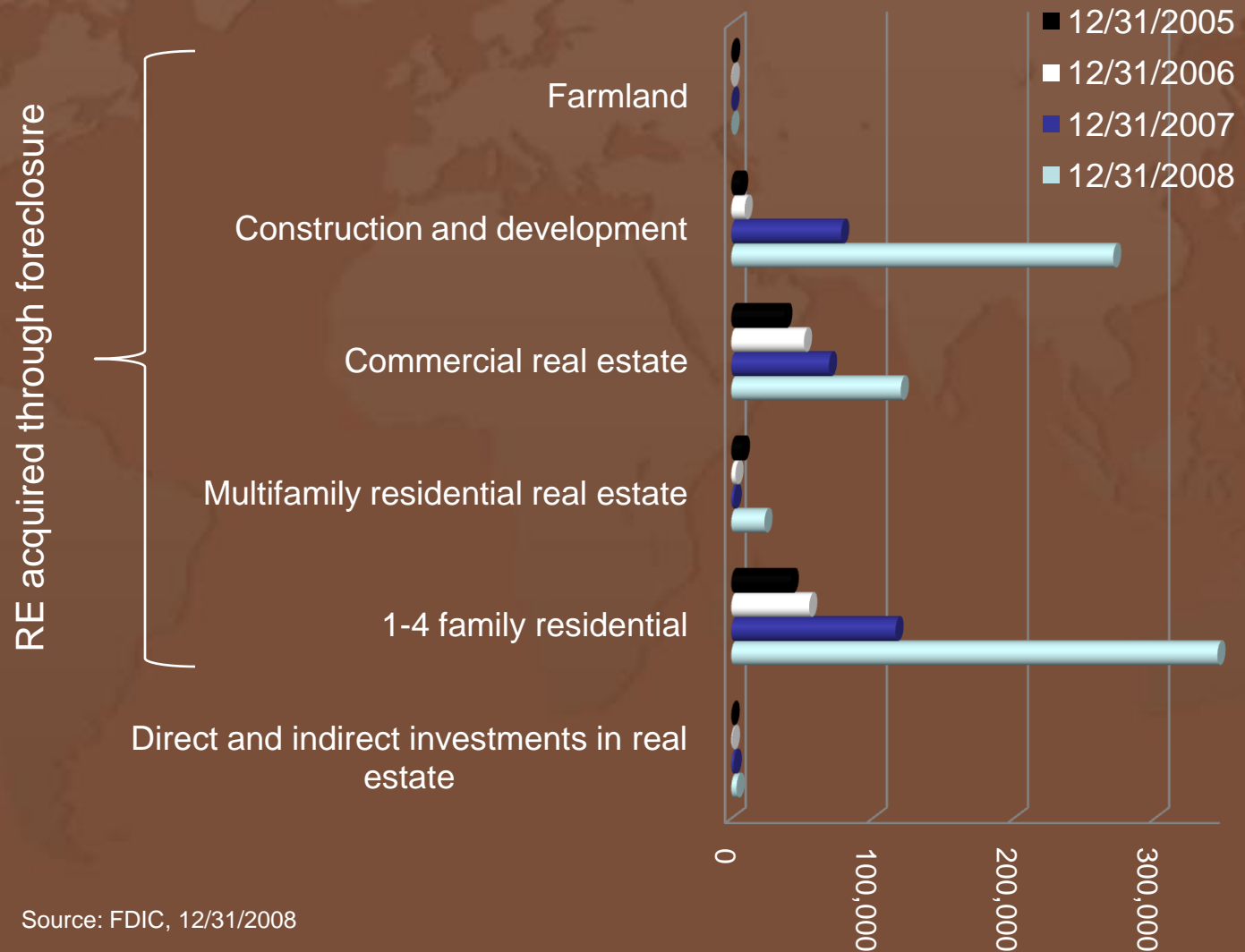
Allowance for Loan and Lease Losses to Total Loans



Source: FDIC

Health of State-chartered Banks

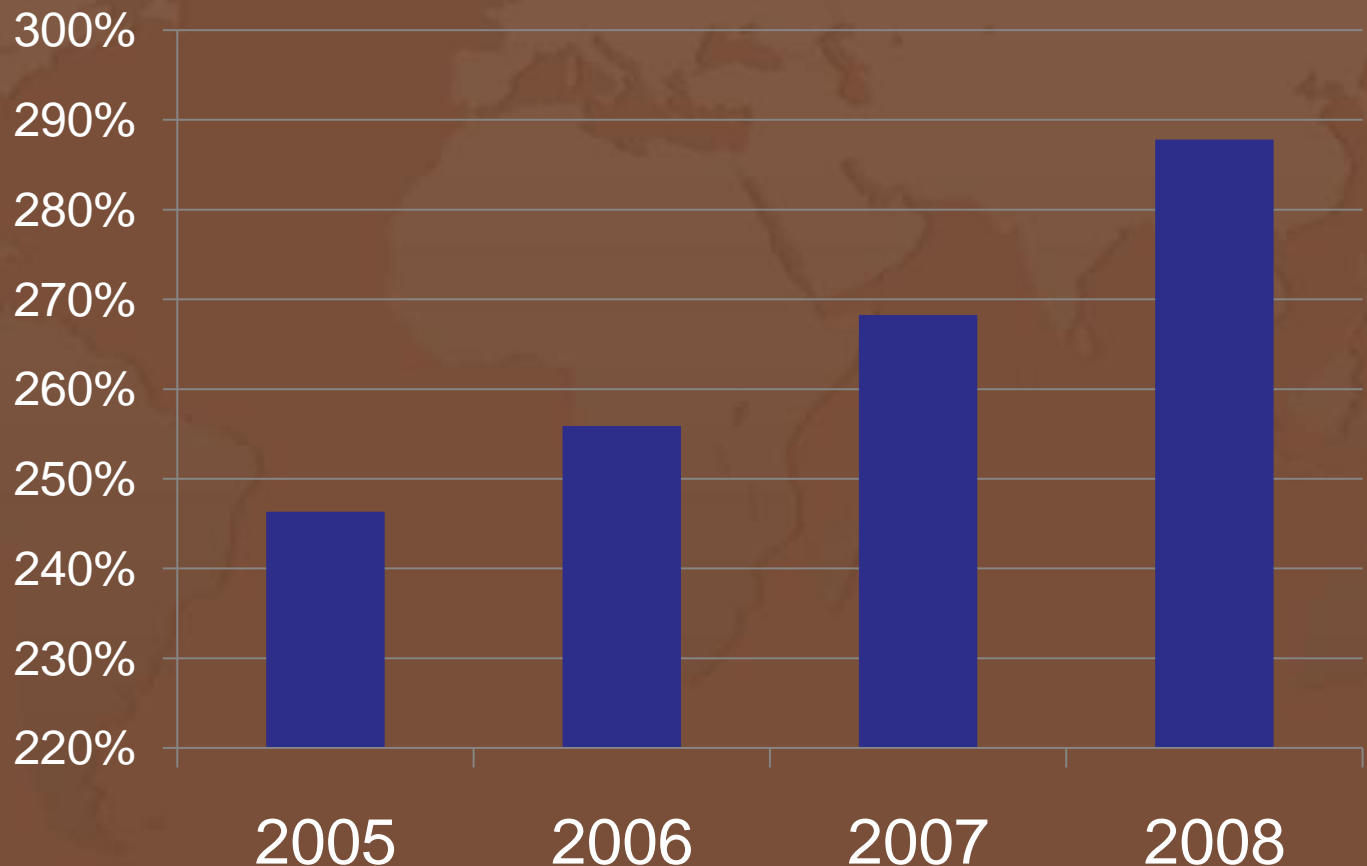
Other Real Estate Owned





Health of State-chartered Banks

Commercial Real Estate to Total Equity Capital



Source: SNL Financial

A globe on a stand, partially obscured by a vertical yellow line. The globe is made of a dark material with a lighter, textured surface. The stand is a simple, rounded base.

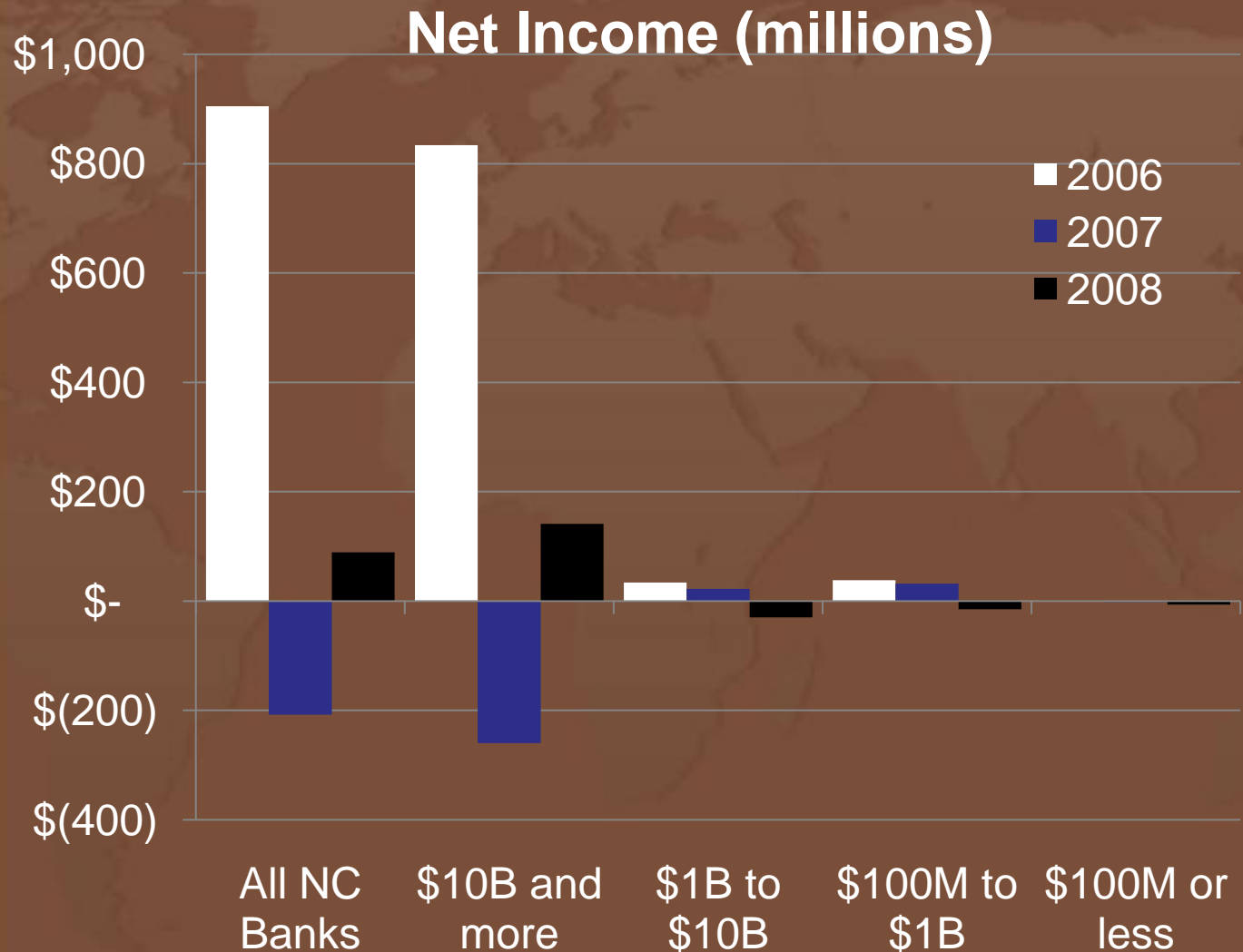
Health of State-chartered Banks

Earnings:

- Significant negative trend
- Concern about future earnings, given prior dependence on real estate



Health of State-chartered Banks



Source: SNL Financial



Health of State-chartered Banks

Liquidity:

- Relatively high core deposits
- Increase in FDIC insurance a help
- Back-up liquidity from Federal Home Loan Bank of Atlanta and the Federal Reserve Bank of Richmond



Where to from here?

Proper valuation of assets

- 1. Whole loans rather than derivatives, as is the case at global institutions
- 2. Reasonable value rather than
 - (i) current book value or
 - (ii) liquidation value
- 3. Need for “price discovery”

Enhancement of capital

- 1. Cushion for marking assets to reasonable cost
- 2. Foundation for further lending
- 3. Private capital essential



Where to from here?

Proposals:

- 1. Amendments to the Banking Laws
 - Remove outmoded restrictions on capital formation
 - Overall revision of the banking law
- 2. Creation of facilities to channel capital and liquefy illiquid whole loans and real estate



Summary

We are going through a difficult period of adjustment. With hard work and cooperation among public and private sectors, we will make it through in good shape.